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TAGS: PREL ETRD EFIN EAID CH AO
SUBJECT: NEW CHINA CREDIT LINE UNDER CONSIDERATION

Classified By: Ambassador Dan Mozena for Reasons 1.4 (b) and (d).

¶1. (C) Summary: During a January 23 call by Ambassador Mozena, Chinese Ambassador Bolum Zhang said negotiations will soon begin between China and Angola for a new loan package valued in the USD "multiple single digit billions." Zhang said the new agreement will not be backed by oil, but should receive a sovereign guarantee from the GRA. Zhang distanced himself from the "private" China International Fund, which has weak management and poor leadership in Angola, despite its close links to the Angolan presidency. Zhang expressed considerable interest in working with the USG on a bilateral development assistance project in Angola. End Summary.

¶2. (C) Background: In a wide ranging and open conversation with Ambassador Mozena, Ambassador Zhang said President Dos Santos's December visit to China opened new channels for political dialogue to build mutual trust and understanding. Zhang said China supports Angola's reconstruction efforts and is providing technology, equipment, and communications infrastructure through government-to-government oil-backed loans, some grants, and company-to-country business deals. In discussions with Chinese leaders, including Ambassador Zhang, senior GRA officials have made clear that Angola requires over USD 12 billion in additional loans to meet its short term development goals. Zhang said a 2003 decision by the GOC to cap the value of Chinese loans to Africa at USD 10 billion likely means China will be unable to meet the GRA requests, as Chinese Ex-Im debt in Angola alone is USD 4.5 billion (2.5 billion expended, 2 billion still available). Zhang said China's rights to Angolan oil (as a result of the oil-backed loans extended to the GRA) represented less than 200 million barrels of oil in 2008, with most of the crude coming from a Block 18 contract among the CIF, Sinopec, and BP. Zhang said Sinopec ships Block 18 oil directly to China, rather than trading it on the open market, though China pays the prevailing market price.

Negotiations Toward a New Loan Package

¶3. (C) Zhang said Dos Santos discussed a new loan package for Angola during his December 16-19 trip to China. Zhang said that while negotiations have not yet begun, it was clear that these loans would not be backed by Angola's oil reserves as that would be "too humiliating" for the Angolans. Zhang said that while the Chinese Ex-Im Bank is taking the lead on negotiations with Angola on the loan package, the funds would be made available through credit extended by private Chinese banks, similar to a government-coordinated investment fund. Zhang said the structure of the loans and the interest rate would be the key points in negotiations. He added that he hoped Angola would offer a sovereign guarantee to help make the loans more appealing to investors. When asked the total value of the proposed package, Zhang said it would be in the USD "multiple single digit billions." Zhang said few details would be released about the plan during the bilateral negotiations, but the program would be completely transparent when finished and announced to the press. Zhang said it is likely that most of the funds will be used by Angola to secure Chinese goods and services in support of GRA reconstruction priorities, such as the new airport in Luanda, new roads, and the rehabilitation of Angola's railroads and port facilities.

Ex-Im versus CIF

¶4. (C) When asked to clarify the relationship between the USD 4.5 billion Ex-Im loan and Angola's relationship with the China International Fund (CIF), Zhang was unable or unwilling to go too far into specifics, especially concerning the value of the relationship, which some independent press sources place at near USD 10 billion since 2002. Zhang did say the CIF made many promises to Angola, and that while the company has a large presence in Angola, its weak management and lack of leadership have stalled many of the projects. Zhang said that as the CIF is a "private company," the Chinese embassy does not actively participate or monitor its relationship with Angola. He added that CIF continues to benefit from the Hong Kong-based owner's "close relationship" with President Dos Santos. Zhang said that while many of the bilateral projects were begun by the CIF, currently many of the CIF's subcontractors are dealing directly with the various ministries of the GRA.

The Path Forward

¶5. (C) Zhang said the bilateral discussions during President Dos Santos' China visit focused on Angola's plan for reconstruction and economic development. Zhang said Angola has many plans, but lacks the available capital to place them in motion. Zhang mentioned projects such as the new Luanda airport (which will cost USD 2 billion and take 3-4 years to build), highway construction, railroad construction, the refurbishing of the Lobito port and the construction of new maritime facilities near Luanda and Soyo. He said those projects alone could cost up to USD 8 billion, adding that China will not be able to offer sufficient loans to meet Angola's needs. He expressed concern that GRA leaders are misreading the severity of the current global economic crisis and its effect on China's ability to raise private funds for projects in Angola.

Agriculture and Joint Cooperation with the U.S.

¶6. (C) Zhang said China is promoting a "model farm" program in Africa to help developing countries learn agribusiness skills so they can become self-sufficient in production and add value to the export chain of agricultural products. Despite China's broad relationship with the GRA, Angola is only on the second tier of proposed country projects. Ambassador Mozena raised the possibility of a joint U.S.-China assistance project focused on agriculture or health - symbolic of our shared goals toward a more peaceful, prosperous, secure, and healthy Angola. Zhang was very supportive of the initiative and said Chinese companies, already under contract with Ex-Im, would be pleased to support such a project. Both Ambassadors undertook to develop proposals for further consideration.

Comment

¶7. (C) The conversation with Zhang was surprising in its rich content and constructive, collaborative tone. While Zhang was careful not to go into much detail concerning the activities of the CIF, it is clear he wants to distance the Embassy and the Government of China from what he appears to consider a less than fully transparent and successful relationship between the CIF and the GRA. He was positive and pragmatic about the forthcoming negotiations toward a new commercial line of credit for Angola. We look forward to working with Zhang in the near future toward a joint bilateral development project. It is important that Angolans and other Africa watchers view how our two countries can

cooperate toward a shared vision of a better Angola. End
Comment.

MOZENA